National Bank of Ukraine

Bank Funding Survey

Q1 2023

The Q4 2022 survey of banks has shown a continued growth in the volume and cost of client deposits. Despite the war, funding from companies and households increased in volume at the majority of the financial institutions thanks to ample supply from clients. At the same time, volumes of wholesale funding continued to decline. Demand for this type of funding grew somewhat, although its cost was still unattractive. The banks expect retail deposits to grow in Q1 2023. At the same time, they project a decline in wholesale funding and corporate deposits. The cost of funding will continue to rise. The overall maturity of deposits decreased, and the share of foreign currency liabilities was on the rise for two quarters running. For the first time since the launch of the survey, the banks expect growth in deposit maturity in the next 12 months. Capital has grew somewhat over the past 12 months, but respondents expect it to decline in future, particularly due to adverse developments in the size of assets, economic environment, and regulatory requirements.

Liabilities

In Q4 2022, funding volumes increased at the majority of banks. Assessments of growth in liabilities has reached a record high since the survey was launched in Q2 2021. More than 80% of respondents reported growth in both retail and corporate deposits. Wholesale funding, which includes issuing bonds, loans from international financial institutions (IFIs) or parent banks, and long-term refinancing, has been on the decline for four quarters running.

Deposit interest rates and regulatory requirements were the main stimuli for the banks to increase funding from retail clients. Supply from households also contributed significantly to growth in this type of funding. Same as in the previous quarter, lucrative interest rates and supply from corporations fueled the increase in corporate deposits.

In Q1 2023, the banks generally expect funding volumes to rise. The financial institutions project growth only in funding from households. In contrast, they expect wholesale funding and corporate deposits to decline.

The share of banks planning to raise wholesale funding in future increased by 38% from Q3 2022. The majority of these banks were primarily intending to do so within one year, but not in the next quarter. The banks mostly counted on long-term refinancing from the NBU and loans from international financial institutions. Around 7% of respondents expected to settle their debts ahead of schedule. Nonprice factors and intentions to address the maturity mismatch were the main stimuli for raising wholesale funding. On the other hand, the cost of this type of funding restrained demand.

Respondents reported an increase in the average cost of funding in Q4. The cost of client deposits, both retail and corporate ones, rose at around a half of the banks. The share of banks that recorded a rise in interest rates on wholesale funding increased slightly compared to Q3.

In Q1, respondents anticipate that the cost of funding from both businesses and households will grow. The price of wholesale funding will also rise somewhat.

The financial institutions report the share of their FX liabilities to grow for two quarters in a row. The maturity of funding continued to decline, although less than in H1 2022. Respondents do not expect the share of clients' FX deposits to change in Q1, but their assessments of growth are becoming increasingly optimistic. For the first time since the launch of the survey in 2021, the banks have reported growth in deposit maturity in the next 12 months.

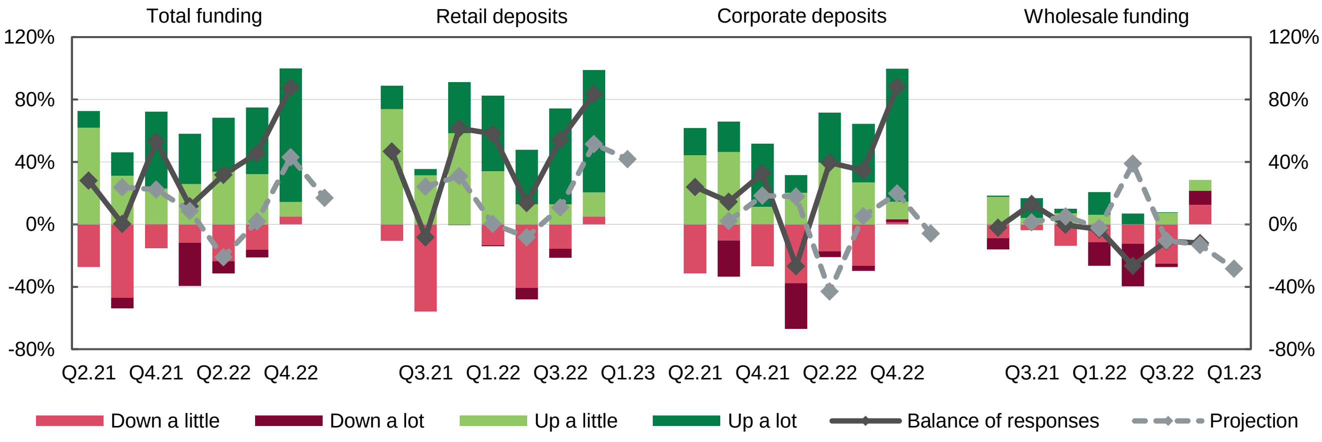
Capital

Total capital has somewhat increased over the past 12 months, mostly reported by some large banks. In the next 12 months, the financial institutions expect their capital to decline. However, the banks' expectations regarding the change in capital are becoming more optimistic each time: the balance of responses increased significantly, from (-56%) in Q1 to (-7%) in Q4 2022.

Respondents cited a decline in assets, a deterioration in the economic environment, and regulatory requirements as the main drivers of the anticipated decline in capital. As in the previous quarter, the banks did not expect losses to cause a capital decrease in the next 12 months. The banks' expectations about shareholders' intentions to increase capital improved gradually throughout 2022.

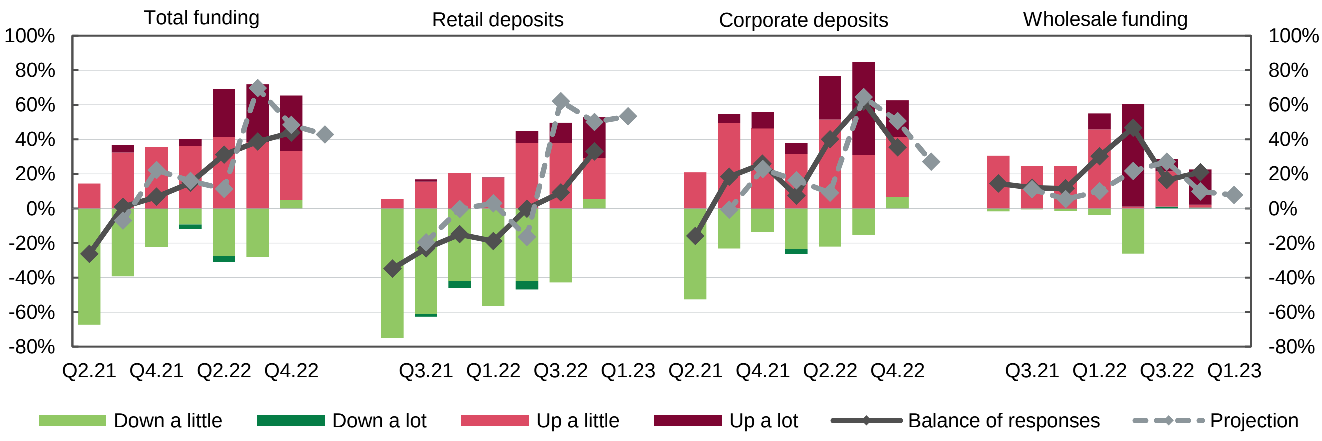
Almost all respondents noted an increase in the cost of capital in the previous 12 months. Around a third of banks expect the cost of capital to grow in the next 12 months.

Figure 1. **Changes in bank funding**



* A positive balance of responses indicates an increase in funding. The procedure for calculating the balance of responses is presented in the Annex. Methodology and survey results.

Figure 2. **Changes in the cost of bank funding**



* A positive balance of responses indicates an increase in the cost of funding.

Figure 3. **Impact of factors on changes in the volume of funds raised (balance of responses*)**

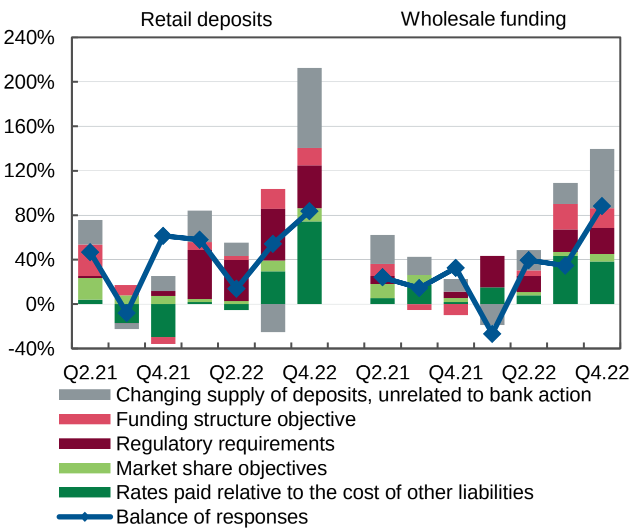
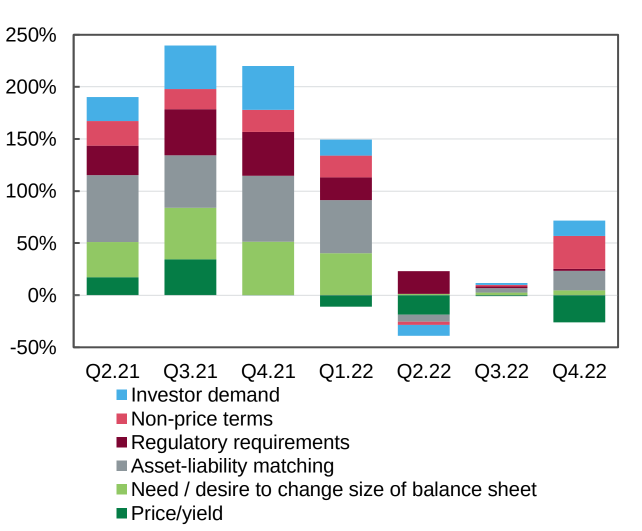


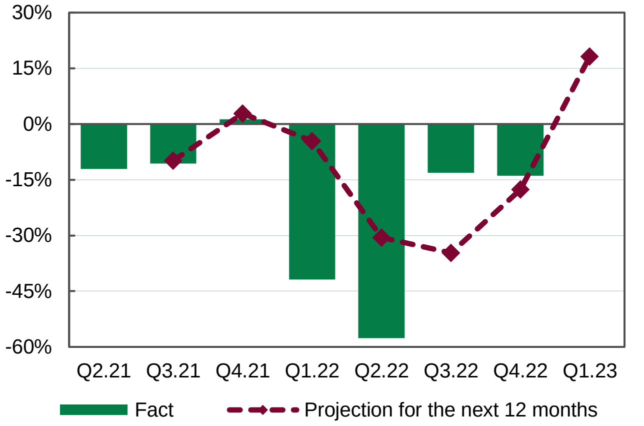
Figure 4. **Impact of factors on changes in the volume of future wholesale funding (balance of responses*)**



* A positive balance of responses indicates a positive impact of the factor on the funding growth.

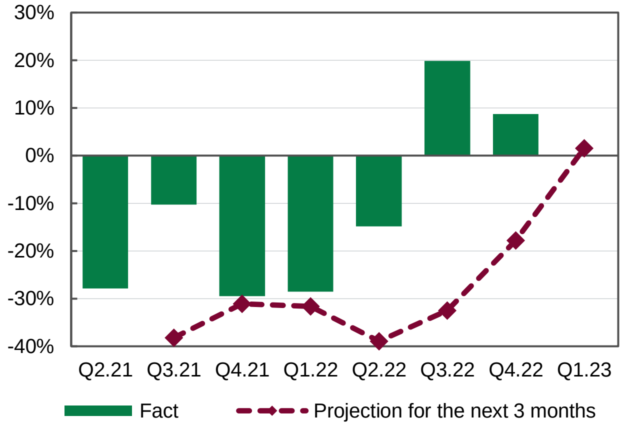
The line in the diagram is the balance of responses about the amount of funds raised. The bars denote the effects of factors on the change in the indicator (the total value of the indicator may not always equal the sum of the contributions of individual factors).

Figure 5. **Change in the maturity of funds raised by banks (balance of responses*)**



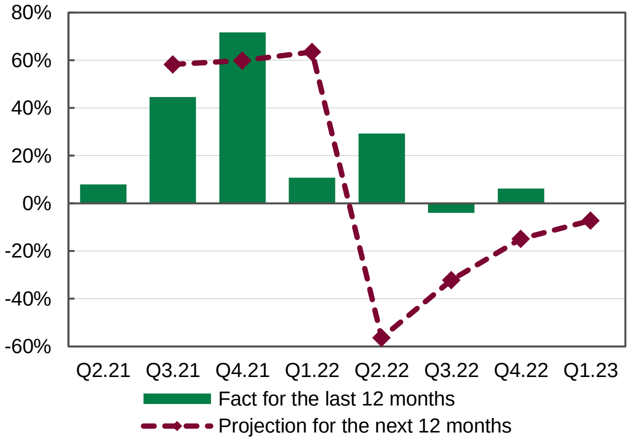
* A positive balance of responses indicates an increase in maturity of funding.

Figure 6. **Change in the share of FX funding (balance of responses*)**



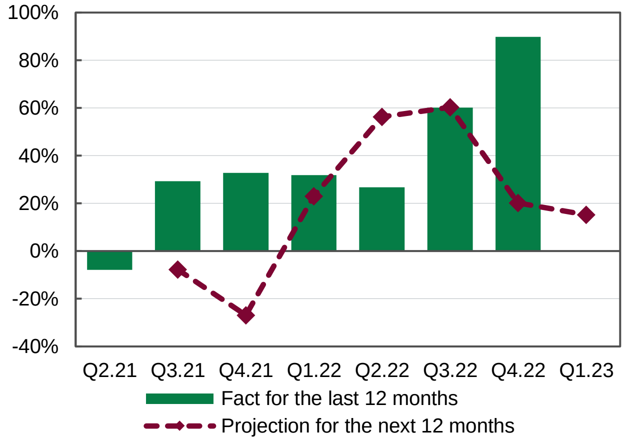
* A positive balance of responses indicates an increase in the share of FX funding.

Figure 7. **Change in banks' total capital (balance of responses*)**



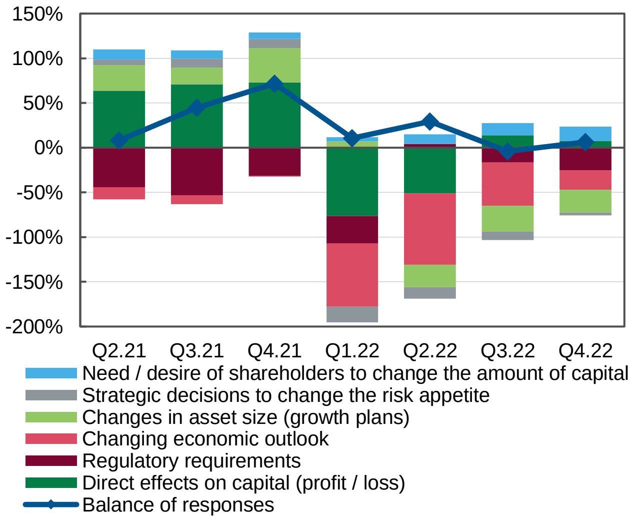
* A positive balance of responses indicates an increase in total capital.

Figure 8. **Change in banks' cost of capital (balance of responses*)**



* A positive balance of responses indicates an increase in cost of capital.

Figure 9. **Impact of factors on changes in banks' capital (balance of responses*)**



* A positive balance of responses indicates a positive impact on changes in banks' capital.

The line in the diagram is the balance of responses about changes in capital. The bars denote the effects of factors on the change in the indicator (the total value of the indicator may not always equal the sum of the contributions of individual factors).

Annex. Methodology and survey results

Each responding bank was represented by a liabilities manager who filled out an electronic questionnaire.

For questions where responses were on an ordinal scale (e.g., from “significantly increased” to “significantly decreased”), a balance of responses indicator was calculated.

The questionnaire covers changes in the past three months and expected changes over the quarter that follows the reporting quarter. The questions from the “Capital” section concern changes during the 12 months before the survey and the 12 months after.

To calculate aggregated results for all banks, each response is assigned a score based on the respondent’s answers and their weight in the total sample. The scores are presented on a range from -1 to 1, depending on the direction of change of the indicator. Responses indicating a significant change of the indicator are assigned a higher score than responses reflecting an insignificant change. The response “grew a lot” will have a score of 1, and the response “grew a little” a score of 0.5. Every estimate was assigned the respective respondent’s weight in the sample, which depended on their share in the liabilities or retail/corporate deposits in the sample. The total score for all banks is the balance of responses, which can be interpreted as the difference between the weighted share of respondents reporting an “increase” in a certain index, and the weighted share of respondents reporting a “decrease” in the index. The balance of responses can range between -100% and +100%. A positive balance indicates that respondents generally assess/expect a change in the indicator (the volume and cost of funding/capital, the maturity of borrowings, etc.) towards an increase/strengthening compared with the previous quarter. More information on how to interpret the balance of answers to each question is presented in the notes to the diagrams.

Table. **Survey Findings**

	Balance of responses							Weighted share of responses, Q4 2022				
	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22					
	1	2	3	4	5	6	7	8				
I. Liabilities												
1. How did funding change during the quarter that ended?												
								Down a lot	Down a little	Same	Up a little	Up a lot
Net change	28%	0%	53%	12%	32%	46%	88%	0%	5%	0%	9%	86%
Retail deposits	47%	-8%	62%	58%	14%	54%	84%	0%	5%	1%	15%	78%
Corporate deposits	24%	14%	33%	-27%	40%	34%	88%	2%	1%	0%	11%	85%
Wholesale funding	-2%	13%	0%	-3%	-26%	-11%	-12%	9%	12%	72%	7%	0%
2. How will funding change in the next quarter?												
								Down a lot	Down a little	Same	Up a little	Up a lot
Net change	24%	22%	8%	-21%	2%	43%	17%	2%	32%	9%	45%	12%
Retail deposits	24%	31%	0%	-8%	11%	51%	42%	0%	9%	18%	55%	19%
Corporate deposits	2%	18%	18%	-43%	5%	20%	-6%	3%	49%	12%	29%	7%
Wholesale funding	1%	5%	-2%	39%	-10%	-13%	-28%	16%	26%	57%	1%	0%
3. How did the average cost of funding change over the quarter that has just ended?												
								Down a lot	Down a little	Same	Up a little	Up a lot
Net change	-26%	1%	7%	15%	31%	39%	44%	0%	5%	35%	28%	32%
Retail deposits	-35%	-23%	-15%	-19%	0%	9%	33%	0%	5%	47%	24%	24%
Corporate deposits	-16%	18%	26%	7%	40%	62%	35%	0%	7%	37%	35%	21%
Wholesale funding	14%	12%	12%	30%	47%	16%	21%	0%	0%	77%	2%	20%
4. How will the cost of funding change in the next quarter?												
								Down a lot	Down a little	Same	Up a little	Up a lot
Net change	-7%	22%	16%	11%	70%	48%	43%	0%	6%	16%	66%	12%

1	2	3	4	5	6	7	8				
Retail deposits											
-20%	-1%	3%	-17%	62%	50%	53%	0%	4%	7%	67%	22%
Corporate deposits											
-1%	23%	16%	9%	64%	51%	27%	0%	9%	35%	49%	7%
Wholesale funding											
11%	5%	10%	22%	27%	10%	8%	0%	0%	85%	15%	0%
5. How did these factors affect the amount of funding from households during the quarter that has just ended?											
							Had a significant negative impact	Had a slight negative impact	No impact	Had a slight positive impact	Had a significant positive impact
Banks' demand factors											
Rates paid relative to the cost of other liabilities											
4%	-17%	-30%	2%	-6%	29%	74%	0%	0%	17%	18%	66%
Market share objectives											
19%	8%	7%	3%	3%	10%	12%	0%	0%	77%	23%	0%
Regulatory requirements											
2%	0%	4%	44%	37%	47%	39%	0%	0%	58%	5%	37%
Funding structure objective											
29%	9%	-6%	7%	4%	18%	16%	0%	0%	72%	24%	4%
Depositors' supply factors											
Changing supply of deposits, unrelated to bank action											
22%	-5%	14%	29%	12%	-25%	72%	0%	0%	9%	38%	53%
6. How did these factors affect the amount of corporate deposits during the quarter that has just ended?											
							Had a significant negative impact	Had a slight negative impact	No impact	Had a slight positive impact	Had a significant positive impact
Banks' demand factors											
Rates paid relative to the cost of other liabilities											
5%	18%	2%	15%	8%	43%	38%	0%	0%	40%	43%	17%
Market share objectives											
13%	8%	4%	0%	3%	4%	7%	0%	0%	87%	13%	0%
Regulatory requirements											
7%	0%	6%	29%	15%	20%	24%	0%	0%	68%	17%	15%
Funding structure objective											
11%	-5%	-10%	0%	5%	23%	17%	0%	0%	65%	35%	0%
Depositors' supply factors											
Changing supply of deposits, unrelated to bank action											
26%	17%	12%	-19%	18%	19%	53%	2%	0%	27%	31%	40%
7. How has the share of FX funding changed in the quarter that has just ended?											
							Down a lot	Down a little	Same	Up a little	Up a lot
-28%	-10%	-29%	-29%	-15%	20%	9%	2%	30%	17%	51%	0%
8. How will the share of FX funding change in the next quarter?											
							Down a lot	Down a little	Same	Up a little	Up a lot
-38%	-31%	-32%	-39%	-33%	-18%	2%	0%	38%	22%	38%	2%
9. How did the maturity of the funds raised in the quarter that has just ended change from the previous quarter?											
							Down a lot	Down a little	Same	Up a little	Up a lot
-12%	-11%	1%	-42%	-58%	-13%	-14%	10%	32%	33%	24%	0%
10. How will the maturity of funding change over the next 12 months?											
							Down a lot	Down a little	Same	Up a little	Up a lot
-10%	3%	-5%	-31%	-35%	-18%	18%	0%	14%	35%	51%	0%
11. What factors have influenced plans to raise wholesale funding going forward?											
							Had a significant negative impact	Had a slight negative impact	No impact	Had a slight positive impact	Had a significant positive impact
Banks' demand factors											
Need / desire to change size of balance sheet											
34%	49%	51%	40%	1%	3%	5%	0%	0%	90%	10%	0%
Asset-liability matching											
64%	50%	63%	51%	-7%	4%	19%	0%	0%	64%	34%	2%
Price/yield											
17%	35%	0%	-11%	-19%	-1%	-26%	28%	0%	69%	1%	2%
Non-price terms											
24%	19%	21%	21%	-3%	2%	31%	0%	0%	65%	6%	28%
Regulatory requirements											
28%	44%	42%	22%	22%	2%	2%	0%	0%	96%	4%	0%
Depositors' supply factors											
Investor demand											
23%	42%	42%	15%	-11%	2%	15%	0%	2%	68%	30%	1%

1	2	3	4	5	6	7	8				
II. Capital											
12. How has total capital changed over the past 12 months?											
							Down a lot	Down a little	Same	Up a little	Up a lot
8%	45%	72%	11%	29%	-4%	6%	16%	3%	52%	12%	17%
13. How will total capital change in the next 12 months?											
							Down a lot	Down a little	Same	Up a little	Up a lot
58%	60%	63%	-56%	-32%	-15%	-7%	26%	13%	23%	25%	13%
14. How has the cost of capital changed over the past 12 months?											
							Down a lot	Down a little	Same	Up a little	Up a lot
-8%	29%	33%	32%	27%	60%	90%	0%	0%	2%	15%	83%
15. How will the cost of capital change in the next 12 months?											
							Down a lot	Down a little	Same	Up a little	Up a lot
-8%	-27%	23%	56%	60%	20%	15%	0%	0%	70%	30%	0%
16. What factors will affect the change in capital over the next 12 month?											
							Significant negative impact	Slightly negative impact	No impact	Slightly positive impact	Significant positive impact
Direct effects on capital (profit/loss)											
64%	71%	73%	-77%	-51%	14%	7%	26%	13%	0%	40%	20%
Regulatory requirements											
-44%	-53%	-32%	-31%	4%	-17%	-25%	0%	50%	50%	0%	0%
Factors affecting capital demand from banks											
Changes in economic outlook											
-14%	-10%	-1%	-70%	-80%	-49%	-22%	8%	53%	14%	25%	0%
Strategic decisions to change risk appetite											
6%	10%	10%	-18%	-13%	-10%	-3%	0%	30%	50%	15%	4%
Changes in asset size (growth plans)											
29%	19%	38%	7%	-25%	-29%	-26%	0%	59%	33%	8%	0%
Factors affecting capital supply from investors											
Need / desire of shareholders to change the amount of capital											
12%	9%	7%	5%	11%	13%	16%	1%	0%	81%	3%	15%

About the survey

The NBU highly appreciates the banks’ participation in the survey under conditions of martial law.
In July 2021, the NBU introduced a quarterly bank funding survey. The survey primarily aims to deepen our understanding of the dynamics of the volumes, structure, and costs of banks’ liabilities and capital. The survey features the aggregate assessments and expectations of respondents concerning the volumes, cost, and maturities of various types of banks’ liabilities and capital, and the drivers that affect these indicators.

This survey offers a review of bank lending market conditions in Q4 2022 and expectations for Q1 2023. The survey contains generalized estimates of changes in the banks’ capital ratios over the past 12 months, and expectations for the next 12 months. The survey was carried out from 16 December 2022 through 12 January 2023 among bank managers in charge of liability management. The answers were provided by 26 respondents, which jointly accounted for 94% of the banking system’s total assets. The results of the survey reflect the opinions of the respondents, and are not estimates or forecasts of the NBU.

A bank funding survey with banks’ expectations for Q2 will be published in April 2023.